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C O N F I D E N T I A L SECTION 01 OF 04 BAKU 000804

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SUBJECT: SCENESETTER FOR THE VISIT OF THE VICE PRESIDENT TO AZERBAIJAN

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Classified By: AMBASSADOR ANNE E. DERSE, REASONS 1.4 B and D

¶1. (C) SUMMARY: The unfolding Russia-Georgia conflict has critical and sensitive ramifications for Azerbaijan. In particular, President Aliyev worries about the implications of the crisis in terms of resolving the Nagorno-Karabakh conflict and its impact on Azerbaijan's westward oil and gas exports, which are key to Azerbaijan's economic viability and its strategic goal of maintaining independence through integration with the Euro-Atlantic community. Baku has been largely quiet at an official, public level, though key officials express solidarity with the Georgians in private. While President Aliyev is critical of Georgian President Saakashvili, calling his actions vis-a-vis Russia "irresponsible" and damaging to Azerbaijan's sovereignty and independence, he underscores the assistance Azerbaijan was quick to send and his commitment to continuing to provide assistance to Georgia. Azerbaijan's leadership is listening very closely to the USG's message on the West's response to the recent events in the region. Baku remains sensitive with respect to the decision the United States (and other Minsk Group partners) took to vote against a UN General Assembly resolution on Nagorno-Karabakh sponsored by Azerbaijan in March. President Aliyev also continues to protest what Azerbaijan's leadership maintains is an unbalanced USG assessment of Azerbaijan's democratic development, particularly with respect to the record of its neighbors. A strong, unequivocal signal of continued USG commitment to partnership with Azerbaijan is critical at this point. END SUMMARY.

Energy Links Azerbaijan to the West

¶2. (C) Azerbaijan is a crucial link in the East-West energy corridor that aims to help Europe diversify its oil and gas supply. Azerbaijan sees its role as a major Caspian oil and gas producer and transit country, in particular, as key to its larger strategic goal of maintaining independence by building strong ties with the West and moving towards Euro-Atlantic integration. U.S.-Azerbaijan cooperation was critical in realizing the Baku-Tbilisi-Ceyhan (BTC) pipeline project, which in July 2006 delivered its first oil to Ceyhan, Turkey. Prior to disruptions to the BTC and the Russia-Georgia crisis, volumes exceeded 800,000 barrels per day. Plans should eventually be realized to link expanding oil production in Kazakhstan with the BTC pipeline, initially by tanker. Azerbaijan's key role in producing and transporting natural gas from the Caspian to Europe via Georgia and Turkey increasingly is the focus of bilateral energy discussions; the significance of these issues, particularly the need for security and stability in the Caspian-Caucasus-Black Sea corridor, has been heightened as a

result of Russia's actions in Georgia.

Georgia-Russia Conflict Effects on Energy

¶3. (C) Infrastructure damage resulting from Russian military actions in Georgia is a major concern for Azerbaijan. A previous explosion and fire along the Baku-Tbilisi-Ceyhan pipeline in Turkey, likely a result of terrorism, temporarily halted oil exports along that route. The crisis in Georgia has now closed off other non-Russian options for oil transport. Technicians are reviewing BTC, with repairs expected to allow resumption of 450,000 barrels or more per day of exports soon, and corresponding increases in production at the ACG offshore fields.

¶4. (C) The Baku-Supsa (Western route) oil pipeline remains closed in Georgia for security reasons. Oil is not flowing from Baku-Batumi (Georgia Black Sea) by rail because of a destroyed railroad bridge near Tbilisi. Georgian railway damage has also stopped crude oil shipments to the Kulevi Port, in which Azerbaijan is heavily invested, and exports of refined products to Poti.

¶5. (C) Azerbaijan's only other viable oil export route, the Baku-Novorossiysk (Northern Route) oil pipeline, is functioning at full capacity. However, it is only partially compensating for the loss elsewhere, and is dependent on Russia as operator. At this time, about 80,000-100,000 barrels per day of Azerbaijan's oil are moving to Russia's Black Sea coast via Baku- Novorossiysk. President Aliyev told

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Seator Lugar that Azerbaijan has always sought to avoid exporting significant amounts through the Northern Route to avoid dependence on Russia. The crisis in Georgia has now forced such exports and Aliyev noted Russia is offering various incentives to induce Azerbaijan to continue or expand use of the route. The Shah-Deniz offshore natural gas field and the South Caucasus natural gas pipeline are now operating nearly at pre-crisis levels, with natural gas moving from Azerbaijan to Georgia and Turkey.

¶6. (C) President Aliyev sees Russia's actions in Georgia as striking fundamentally at Azerbaijan's long term goal of independent export of Caspian energy to the West. It is important for the USG to underscore our commitment to continue to work with the GOAJ and other responsible partners in the region to develop and deliver to the West the next generation of Caspian energy resources -- including joint work with Georgia, Turkey and Europe on projects such as the Turkey-Greece-Italy and Nabucco natural gas pipelines, and on regional infrastructure security. The USG should applaud Azerbaijan's efforts to work with Turkmenistan and Kazakhstan and offer our support for Azerbaijan's work with these and other regional partners to develop and transport energy resources in and from the Caspian Basin.

Security Cooperation

¶7. (C) Azerbaijan is a steadfast partner in U.S. counterterrorist efforts. In Iraq, 150 Azerbaijani infantry troops stand alongside U.S. Marines guarding the Haditha Dam.

At the NATO Summit in Bucharest in April, President Aliyev announced Azerbaijan's plans to double its peacekeeping forces in Afghanistan from 45 to 90 troops and provide new training programs for Afghan security forces, as well as increase its civilian support. Azerbaijan provides unlimited overflight and landing rights for Coalition aircraft bound for Iraq and Afghanistan (with some 3,000 overflights and 200 landings last year for U.S. aircraft alone), as well as strong information sharing and law enforcement cooperation in fighting terror.

¶8. (C) Security cooperation, focused on our support for

Azerbaijan's defense reform under its second NATO Individual Partnership Action Plan (IPAP) and including our efforts to bolster maritime and border security, is one of the strongest aspects of our bilateral relationship. It will take on new significance in the aftermath of Russia's military action in Georgia. Azerbaijan agreed at the 2008 Bilateral Defense Consultations to work with the USG to develop a three-to-five year security cooperation program, and Washington should explore what Aliyev has in mind as next steps, particularly in light of developments in Georgia.

Nagorno-Karabakh

¶9. (C) Resolution of the Nagorno-Karabakh (NK) conflict is Azerbaijan's top domestic and foreign policy priority, and the sole issue that unites Azerbaijani citizens across the political spectrum. All conversations in Azerbaijan eventually turn to NK and the adjacent occupied territories. Azerbaijanis seek the return of Nagorno-Karabakh and the seven surrounding territories, which they lost during a late 1980s-early 1990s conflict with Armenia, and the right of the estimated 800,000 refugees and internally displaced persons to return to their former homes. From Baku's perspective, any solution to the conflict must preserve Azerbaijan's territorial integrity; NK cannot become an independent state.

The GOAJ's position on NK is that Armenia must return the region to Azerbaijan's control, and in return, Baku promises to grant NK and its majority Armenian population the highest possible degree of autonomy, within Azerbaijan's internationally recognized borders.

¶10. (C) Azerbaijanis uniformly believe that the international community, including the USG, should pressure Armenia for a solution consistent with Azerbaijan's territorial integrity. They are increasingly frustrated with what they believe is insufficient progress in the OSCE Minsk Group negotiations, led by the US, Russia and France. Azerbaijan is critical of the U.S. Congress for what it maintains is unjust favoritism of Armenia over Azerbaijan. The Azerbaijani Government was extremely disappointed by the Minsk Group Co-Chairs' "no" vote on Azerbaijan's March 2008 UN General Assembly resolution regarding Nagorno-Karabakh and

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continues to express its concerns in public and private fora. President Aliyev seeks the same strong support for Azerbaijan's territorial integrity that the US is offering Georgia with respect to its separatist regions.

Reform Remains Difficult

¶11. (C) Promoting substantive political and economic reform in Azerbaijan is an ongoing challenge that mirrors difficulties in most other post-Soviet states. The USG engages with the GOAJ at all levels, arguing that our cooperation in three key areas of shared interest, -- energy, security, and democracy -- is mutually reinforcing and interdependent, and that political and economic reform to strengthen democratic institutions and respect for human rights is essential to Azerbaijan's long term stability and prosperity. Many in the government still have business interests and do not perceive reform as serving their immediate, personal, short-term interests.

¶12. (C) Through its membership in the OSCE and Council of Europe, its partnerships with NATO and the EU, and its WTO aspirations, Azerbaijan has pledged to conduct the systemic political and economic reform needed to ensure its long-term stability and prosperity. Azerbaijan's democratic and economic reform record, however, is poor, hamstrung by an entrenched Soviet-era bureaucracy, endemic corruption and weak democratic institutions. The country's October 2008 presidential election presents an important opportunity for Azerbaijan to demonstrate its commitment to democratic

reform. The USG is engaged in an intensive effort, offering USD 3.2 million in technical assistance to promote the conditions necessary for free and fair elections.

¶13. (C) Although there is a large number of media outlets, print, and Web sites, the media environment is heavily restrictive, with dubious criminal court cases and violent attacks against journalists that have not been prosecuted. Many in Azerbaijan argue that the media's ability to criticize or question government officials and policies has significantly deteriorated in the last year. President Aliyev, at the end of 2007, pardoned 119 prisoners, including five high-profile journalists imprisoned for libel. Three high-profile journalists remain imprisoned, ostensibly for criminal acts, and several others in recent weeks have expressed concern about their safety.

¶14. (C) The government restricts the rights of peaceful groups to assemble, particularly in central areas of Baku, and has put pressure on opposition political parties by restricting their ability to rent office space, hold meetings, raise funds and carry out normal political activities. In preparation for the 2008 election, the government made changes to its election code and law on freedom of assembly which were generally viewed favorably by the OSCE and the Council of Europe, although implementation will be key.

Rapid Economic Growth

¶15. (C) With GDP growth of 25 percent in 2007, Azerbaijan has one of the fastest growing economies in the world, driven nearly entirely by the energy sector. The government's economic planning and the country's judicial, regulatory and banking sectors are weak and ill-prepared to manage this enormous influx of revenue. Corruption is pervasive throughout Azerbaijan. Significant institutional reform and capacity-building are required to manage the stable growth of Azerbaijan's economy and to prevent Azerbaijan from succumbing to the "oil curse" experienced by many other energy producers.

¶16. (C) The U.S. is providing technical assistance to help Azerbaijan manage this transition, primarily through USAID's Trade and Investment Program, anti-corruption programs and rule of law activities as well as an initiative to strengthen the GOAJ's consolidated budgeting process. Moreover, experts suggest the World Trade Organization (WTO) accession process, for which the USG is providing technical assistance, is the key vehicle through which we can promote implementation of successful economic reform that will keep Azerbaijan's development on a stable path. The government has submitted important, WTO-compliant draft legislation to Geneva and is working with us on a plan to co-finance the Trade and

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Investment Program. Nonetheless, much work remains to be done on WTO accession and the GOAJ needs to bolster its efforts to facilitate and expedite negotiations.

Religious Issues

¶17. (C) Azerbaijan is traditionally a secular Shia Muslim country with a significant Sunni minority, well-integrated Jewish and Christian communities and a long history of religious tolerance. Current estimates show that Azerbaijan is roughly 65 percent Shia and 35 percent Sunni. Following a broader post-Soviet trend, there is a growing number of practicing Muslims, many of whom follow mainstream teachings and make no distinction between Sunnis and Shia. There are, however, isolated pockets of extremists fuelled by increasing interaction with Arab, Turkish and Iranian missionaries. Rivalry among Muslim sects and religious groupings is on the rise. Acts of terrorism are rare in Azerbaijan but have

occurred. For example, the GOAJ is currently investigating an unprecedented August 17 bombing of a Sunni mosque that killed three people and injured several others. Azerbaijani citizens are free to travel abroad, and some Azerbaijanis have accepted scholarships and other vehicles to study in Iran, Saudi Arabia and elsewhere. The strongly secular Government of Azerbaijan often clamps down on religious activity, especially that which it considers "fringe" or radical, and has outlawed proselytizing by foreigners.

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